EXHIBIT B

FORTIS BANK

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Memorandum

To MBCC

From Risk Management FPFS

Copy to

Subject Proposed Limits for PFS Exposure to Bernard Madoff Securities Strategy

Date January 18, 2007

Reference

Introduction

We outline as follows a proposed limit for exposures to Madoff Securities' investment strategy and provide some qualitative information on the firm and the implementation of the strategy.

Proposed Limit

The recently approved Redacted transaction will increase FPFS's exposure to Bernard Madoff Securities' split strike synthetic conversion option strategy to at least USD850m by the end of 2007. There are further prospective transactions where the underlying collateral will be an identical Madoff account. In order to provide a basis for decision-making on these proposals, we propose to set an overall limit of <u>10% of FPFS Total Approved Limits</u> for FPFS exposure to the Madoff strategy. This is consistent with the provisions of Credit Policy on exposure to a single client.

The limit translates into a maximum exposure to Madoff of USD1.25b based on approved facilities at 31 December 2006. This could be reasonably be expected to increase to USD1.5b by the end of 2007, assuming 20% growth in lending. The following table gives some benchmarks for the proposed exposure.

	USDm	Limit %
FPFS Total Approved Limits at end-2007 (incl Redac and assuming 20% increase from Dec06)	15,000	

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Proposed Limit for Madoff Exposure (via [redacted] at end-2007	1,500	**10%**
• Total Volume of Madoff activity for Split Strike Strategy (estimated). • FPFS lending as a percentage of this (Dec06)	20,000	6.25%

It is our view that a limit of up to USD1.5b is justified on the basis that the exposure is essentially to the top 50 US equities and to the S&P100 options market. We have a leverage multiple of 4 for [redacted] (75% financing) but the [redacted] and subsequent cases involve a multiple of 3 (67% financing). The various credit proposals make the point that these levels allow a margin of comfort that safeguards against even unprotected S&P100 index declines.

FPFS is seeking to develop a strategy for risk-sharing of the Madoff exposure by one or more other banks. This will be put in place during 2007 and will allow for future growth in the relationships discussed here while adhering to the 10% limit as a **net position** after applying risk-sharing. The limit will be reviewed at 31 January 2008.

Madoff Securities

We summarise here some general information about the activities of Bernard L. Madoff Securities as well as the findings of the June 2006 due diligence review by FPFS on the operation of the investment strategy the firm offers to clients. The objective is to provide some explanations and background to the limit proposal as outlined.

Bernard L. Madoff Investment Securities LLC has been providing execution services for broker-dealers, banks, and financial institutions since 1960. It executes 10%-15% of trades on the NYSE and NASDAQ. It is a full clearing firm and a member of all US clearing corporations and depositories. With more than $550 million in firm capital, Madoff currently ranks among the top 1% of US Securities firms. The firm is a leading market-maker in all of the S&P 500 stocks as well as over 350 NASDAQ issues.

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The firm has become a leader in the US "third market," which trades US listed equities away from the exchange floor. It has a reputation for fine pricing and execution ability in this market. The firm's highly automated clearing and settlement systems interface with the Depository Trust Company, the Options Clearing Corporation, and the National Securities Clearing Corporation. Its systems also interface fully with the systems of all major global custodians and clearing & settlement systems.

Bernard L. Madoff has been a major figure in the National Association of Securities Dealers (NASD). The firm was one of the five broker/dealers most closely involved in developing the NASDAQ Stock Market. He has been chairman of the board of directors of the NASDAQ Stock Market as well as a member of the board of governors of the NASD. One major US financial publication lauded Bernard Madoff for his role in "helping to make NASDAQ a faster, fairer, more efficient and more international system."

Investment Strategy

The 'split strike synthetic conversion' option strategy works as follows.

- Madoff aquires (for their clients) a basket of 30-35 stocks that mimics the S&P 100 Index. It uses a sophisticated, proprietary automated trading system that optimizes the basket of stocks to replicate the performance of the overall market and therefore presents a very high degree of correlation with the general stock market.
- Once the basket is identified, the investment manager hedges the equity exposure by establishing offsetting option positions. This strategy allows the stocks to appreciate to the call strike level together with the full downside protection at the strike price of the put. The (long) Put / (short) Call position represents a synthetic position, short the market, which provides a hedge against the long stock positions. This strategy has fixed risk and profit parameters. Risk is very low due to put protection, whereas as profits are limited due to the sale of the calls.
- Perfomance can be increased, without increasing market risk, by 'timing' the strategy a number of times per year: moving from split strike to T-Bills and vice versa.

The strategy has generated returns on an unleveraged basis over the past 15 years that are similar to the returns on the S&P500 but with (obviously) much lower volatility.

FPFS carried out a due diligence review at Madoff in June 2006. We obtained an explanation of the source of Madoff's expertise in running the split strike synthetic conversion option strategy. Three sources of competitive advantage could be identified as follows.

- Execution Platform Madoff has a substantial market making operation on the New York Stock Exchange and has the ability to trade very efficiently in large volumes over a 2-3 day period in the execution of its strategy.
- 'Ticker Plant' Database The market making operation has allowed the development of an archive of price data and vendors with a long history as well as a set of relationships with market participants that give a very detailed view of trading activity on the NYSE. This allows backtesting and real-time pricing of a range of possible portfolios that are devised to achieve the required 95% correlation with the S&P100 Index. These portfolios typically consist of 35-45 stock positions.
- Market Insight Madoff executes a significant proportion of the equity trades on the NYSE. It is clear that it has an insight into the views on the market being taken by a wide range of participants and that this insight informs the market timing strategy. The firm's traders also use the same range of technical tools that would be used by any market participant. The information on liquidity in particular is critical to the decision-making process.

It was clear from our discussions that proprietary IT development over a long period of time formed the basis for the market-making business and facilitated the trading relationships with a range of large institutions and mutual funds.

Trading Mandate

Some additional information was obtained during the due diligence review on the implementation of the strategy.

- The accounts for all of the Madoff clients are operated according to the same trading mandate.

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- Trades are executed for all of the clients simultaneously and each client is allocated a proportionate share of the trades at the achieved prices.
- Clients accept the implementation of the trading mandate by Madoff and have no ability to opt out of any element of the strategy.
- The only fees charged are execution fees of 4 cent per share of stock and 1 dollar per option contract.
- The mandate requires Madoff to have put protection in place for the full value of the portfolio but allows them to exercise discretion in regard to the adoption of short call positions to offset the cost of the protection.

Conclusions

Madoff Securities has a leading position as a clearer and market-maker in the US securities markets that is based on a network of relationships and a technological expertise that have been built up over a long period of time. Its reputation for first-class execution is a source of enduring competitive advantage.

We conclude is that there is a clearly discernible basis for the viability of Madoff's investment strategy over time. It would be unrealistic to expect one firm's strategy to achieve consistent outperformance over a long period of time and indeed there is a recognition that other Wall Street firms may be matching at least the efficiency of their IT systems. Nonetheless it is reasonable to believe that it would be difficult to impossible for many market participants to replicate all of the elements that underpin the strategy.

Our review of the trades executed on behalf of Harley throughout 2006 indicates that the trading mandate has been implemented effectively and consistently. Risk Management continues to monitor the trades and positions on a daily basis.

We recommend the limit as outlined above for approval by the MBCC and CCC.

John Roche
18 January 2007

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